

FORTY-SECOND

# ANNUAL REPORT

*of the*

BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM



COVERING OPERATIONS FOR  
THE YEAR

1955

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**RECORD OF POLICY ACTIONS**  
**FEDERAL OPEN MARKET COMMITTEE**

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January 11, 1955

**1. Authority to Effect Transactions in System Account.**

The following directive to the executive committee was approved:

The executive committee is directed, until otherwise directed by the Federal Open Market Committee, to arrange for such transactions for the System open market account, either in the open market or directly with the Treasury (including purchases, sales, exchanges, replacement of maturing securities, and letting maturities run off without replacement), as may be necessary, in the light of current and prospective economic conditions and the general credit situation of the country, with a view (a) to relating the supply of funds in the market to the needs of commerce and business, (b) to fostering growth and stability in the economy by maintaining conditions in the money market that would encourage recovery and avoid the development of unsustainable expansion, (c) to correcting a disorderly situation in the Government securities market and (d) to the practical administration of the account; provided that the aggregate amount of securities held in the System account (including commitments for the purchase or sale of securities for the account) at the close of this date, other than special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury, shall not be increased or decreased by more than \$2 billion.

The executive committee is further directed, until otherwise directed by the Federal Open Market Committee, to arrange for the purchase direct from the Treasury for the account of the Federal Reserve Bank of New York (which Bank shall have discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) of such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury, provided that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed in the aggregate \$2 billion.

Votes for this action: Messrs. Martin, Chairman, Sproul, Vice Chairman, Balderston, Leedy, Mills, Robertson, Szymczak,

Williams, and Young. Votes against this action: none. Not voting: Mr. Bryan.

Clause (b) of the directive was changed at this meeting to provide that transactions for the System open market account should be with a view, among other things, "to fostering growth and stability in the economy by maintaining conditions in the money market that would encourage recovery and avoid the development of unsustainable expansion." This superseded the clause in the directive that had been adopted by the Committee at its meeting on December 7, 1954 which read "to promoting growth and stability in the economy by maintaining a condition of ease in the money market."

The change to eliminate the word "ease" from the Committee's directive and to adopt the wording set forth above reflected the view of the Committee that, while the economic situation was developing satisfactorily, easy credit was no longer needed to foster recovery. There had been a rapid advance in most indicators of over-all economic activity since mid-1954 to levels only moderately below earlier peaks and, at the same time, there were some indications that further ease might contribute to the germination of unhealthy speculative activity which might endanger stability. The volume of credit used in security trading had been increasing rapidly, and the Board of Governors had increased margin requirements from 50 per cent to 60 per cent, effective January 4, 1955. The Committee's conclusion that, in order to avoid the development of unsound conditions, it should not continue to promote "ease" in credit availability, was a shift in emphasis, a further step away from the policy of "active ease" that had been pursued during the latter part of 1953 and most of 1954 and which had been modified in December of that year by elimination of the word "active" from the instruction to pursue a policy of ease. While the Committee did not believe that it was yet fighting inflation, it took the position that this shift in emphasis was desirable to avoid credit conditions that might encourage the development of an inflationary situation. This would contemplate a gradual contraction in the volume of free reserve funds of banks from the level that had prevailed, and some increase in the cost and decrease in the ready availability of credit. On the other hand, the change in directive at this meeting did not call for pursuit at this stage of a program of credit restraint or of firmness in the money market.

March 2, 1955

#### 1. Authority to Effect Transactions in System Account.

The Federal Open Market Committee approved a renewal without change of the directive issued at its meeting on January 11, 1955 with respect to effecting transactions for the System open market account. Among other things, this directive provided that transactions for the System open market

account be conducted with a view "to fostering growth and stability in the economy by maintaining conditions in the money market that would encourage recovery and avoid the development of unsustainable expansion."

Votes for this action: Messrs. Martin, Chairman, Sproul, Vice Chairman, Balderston, Earhart, Fulton, Irons, Leach, Mills, Robertson, Szymczak, and Vardaman. Votes against this action: none.

The Committee's review of the economic situation indicated that expansive forces had continued generally strong, both domestically and abroad, during the opening months of 1955. Recovery was well advanced from the recession low of mid-1954 but industrial activity was still slightly below the previous peak reached in mid-1953. While there had been scattered increases in prices of raw materials, there had been no spreading of such increases to the general price structure. Speculative inventory accumulation was not apparent. Unemployment was still relatively high, notwithstanding the degree of recovery that the country had experienced. Concern was indicated with respect to the relaxation of terms for and the volume of expansion in mortgage and consumer credit, and there were some fears that in a few industries, including building, activity was reaching levels that could not be sustained.

This situation did not appear to call for a generally restrictive credit policy but for a program that would continue to encourage sound economic growth and high employment, while discouraging speculative developments and financial over-commitments by business and consumers. Monetary policy had been taking some of the slack out of the money market since the turn of the year and money rates had risen. Thus, while policy had not become restrictive, it had recently resulted in some restraint on the rate of credit expansion. The Committee concluded that this policy was appropriate to the current needs of the economy, and it agreed that, although increased ease should be avoided, further measures toward restraint should be deferred until the effects of the shift in operations that had taken place since the beginning of the year were more apparent.

#### 2. Authorization to Acquire Bankers' Acceptances When Consistent with the General Credit Policy of the Federal Open Market Committee.

The Committee authorized the Federal Reserve Banks (a) to purchase or sell, at market rates of discount, prime bankers' acceptances of the kinds designated in the regulation of the Federal Open Market Committee, at such times and in such amounts as the executive committee might deem advisable and consistent with the general credit policies and instructions of the Federal Open Market Committee; and (b) to enter into repurchase agreements with nonbank dealers in bankers' acceptances at such times, in such amounts, and at such rates or rate ranges as the executive committee should prescribe. Incident to this change in the procedure it had been